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"To Enrich Lives Through Effective And Caring Service"

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February 10, 2015

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**VERMONT CORRIDOR DEVELOPMENT PLAN
AUTHORIZE SITE INVESTIGATION AND ENVIRONMENTAL STUDIES
FINALIZE A REQUEST FOR PROPOSALS
FOR DEVELOPMENT OF THE VERMONT CORRIDOR
(SECOND DISTRICT)
(3 VOTES)**

SUBJECT

The recommended actions will authorize the site investigation; authorize the preparation of appropriate environmental documentation; authorize project feasibility management services; authorize the Community Development Commission to complete a Request for Proposals, all related to the design and construction development of a proposed new building to house the Department of Mental Health headquarters and future development of adjacent County-owned properties (Vermont Corridor Development Plan); and delegate authority to the Chief Executive Office to execute a funding agreement with the Community Development Commission for the project's feasibility management services.

IT IS RECOMMENDED THAT THE BOARD:

1. Find that the proposed actions are exempt from the California Environmental Quality Act, for the reasons stated in this letter.
2. Authorize the Community Development Commission, with the assistance of the Department of Public Works, to conduct a topographical survey and site investigation study of the proposed location for the proposed new Department of Mental Health headquarters site located on existing County properties at 510, 526, and 532 South Vermont Avenue, in the City of Los Angeles, utilizing Board-approved as-needed consultants in the approximate amount of \$500,000.

3. Authorize the Chief Executive Office, in cooperation with the Community Development Commission, to perform all necessary environmental reviews and prepare appropriate environmental documentation for compliance with the requirements of the California Environmental Quality Act, utilizing previously Board-approved as-needed consultant contracts, for the proposed development of County properties located at 433, 510, 526, 532, 550 South Vermont Avenue, in the City of Los Angeles, and 3175 West 6th Street, in the City of Los Angeles, in the approximate amount of \$1,000,000.

4. Delegate authority to the Chief Executive Office to execute a funding agreement in the amount of \$405,000 with the Community Development Commission to provide project feasibility management services for the Vermont Corridor Development Plan.

5. Authorize the Community Development Commission to complete (but not release) a Request for Proposals for design and construction development of a proposed new Department of Mental Health headquarters facility located on existing County-owned properties located at 510, 526, and 532 South Vermont Avenue, in the City of Los Angeles; and future development of County-owned properties located at 550 and 433 South Vermont Avenue and 3175 West 6th Street, in the City of Los Angeles upon completion of the proposed new Department of Mental Health headquarters building in order to alleviate blight as described herein.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The recommended actions will authorize the preparation of appropriate environmental documentation for compliance with the requirements of the California Environmental Quality Act (CEQA) for the proposed Vermont Corridor Development Plan and will commence the site investigation study of the proposed Department of Mental Health (DMH) headquarters development location in order to document site, geotechnical, hazardous materials, and engineering/construction constraints of the existing subsurface Metro Rail tunnel. These actions will also authorize the Community Development Commission (Commission) to finalize a Request for Proposals (RFP) for the development of a proposed new DMH headquarters (HQ) facility and future private development of County-owned properties located at 433, 510, 526, 532, 550 South Vermont Avenue and 3175 West 6th Street in the City of Los Angeles, and will authorize the Commission to provide project feasibility management services for the Vermont Corridor Development Plan. The Commission will provide project feasibility management services to the County, which will include without limitation the management of the geotechnical and environmental documentation and feasibility, design, entitlement processing, site surveys, and inspections of the County-owned Vermont Corridor properties. Commission's services will be in consultation with all affected County departments.

Upon completion of the RFP, the Chief Executive Office (CEO) will return to the Board for approval and to seek authorization for the Commission to advertise and administer the RFP in May 2015.

Upon completion of the RFP evaluation process, the CEO will return to the Board with a recommendation that the Executive Director of the Commission, in consultation with the CEO, enter into exclusive negotiations for an agreement between the County and the selected proposer.

The information derived from the proposed site investigation study will provide proposers with sufficient information to better understand site development conditions.

Background

On July 1, 2014, the Board directed the CEO, with the assistance and input from the Commission, to report back with a proposed plan and timeline for the:

- development, design, and construction of a new building at the Vermont Corridor;
- acquisition and completion of tenant improvements at an existing building to house departmental staff currently located at the Vermont Corridor; and
- issuance of an RFP to privately develop and/or sell the remaining County property at the Vermont Corridor.

The CEO was also directed to validate space requirements of various administrative offices to be contained in the Vermont Development Plan for DMH, the Department of Parks and Recreation (DPR), and the Department of Community and Senior Services (DCSS). The current buildings located in the Vermont Corridor have outlived their useful life and show a high level of physical deterioration, which is negatively impacting working conditions for staff operating from these facilities and necessitates immediate resolution.

Further, on July 1, 2014, the Board authorized the CEO and Director of Public Works to determine an appropriate size for the new DMH HQ building. The CEO is continuing its efforts to locate and acquire suitable space to relocate various staff from DPR and DCSS currently located at the Vermont Corridor.

The proposed development of a new DMH HQ is one component of a proposed comprehensive Vermont Corridor Development Plan that is intended to eliminate blight along the Vermont Corridor. Pursuant to the Board's direction, the CEO, Commission, County Counsel, and Treasurer and Tax Collector have studied the feasibility of integrating a private development model, such as the "Alhambra Model" utilized by the Commission to construct its new DMH HQ.

Initial evaluation of the proposed DMH HQ building site indicates potential construction challenges due to a metro rail tunnel in close proximity, potential subsurface methane gas, and adjacent building foundation systems. Therefore, in order to attain reasonably accurate preliminary cost and schedule estimates for development of the proposed new DMH HQ building, we are also proposing completion of a site investigation study that will be provided to proposers to help them better understand site development conditions.

Proposed Vermont Corridor Development Plan

The proposed development of a new DMH HQ is one component of a proposed comprehensive Vermont Corridor Development Plan that is intended to eliminate blight along the Vermont Corridor. Pursuant to the Board's direction, the CEO, Commission, County Counsel, and Treasurer and Tax Collector, have studied the feasibility of integrating a private development model, such as the "Alhambra Model" utilized by Commission to construct its proposed new headquarters.

Alhambra Development Model

Under the Alhambra Development Model (Alhambra Model), the Commission issued a request for proposals for a local real estate and development company to acquire and develop its headquarters. The awarded non-profit public finance company then acquired the land and administered the design,

permitting and construction of the Commission headquarters, as well as the renovation of the parking structure. Upon completion of the Commission headquarters, the non-profit leased the premises to the Commission for up to 30 years, or until the bonds are repaid, whichever is first, at which point ownership of the building will transfer to the Commission.

The financing structure for the Alhambra model was an IRS Revenue Rule 63-20 tax-exempt revenue stream bond, which allows compliant and eligible third party, which is required by federal tax regulations to be a non-profit entity, to access tax-exempt financing for projects benefitting the public. While there are advantages to using this type of financing model, the Treasurer notes there are other alternate financing models that may also be attractive.

The Alhambra Model utilized three phases: solicitation, pre-development, and development, for the construction of its headquarters. The Alhambra Model used concurrent implementation of economic feasibility studies and procurement in its initial phase. In the Alhambra Model, the Commission and the non-profit entity agreed to a Guaranteed Maximum Price Contract (GMAX), in which the non-profit entity guaranteed that the Commission would pay no more than the guaranteed maximum price for the completion of the work. This GMAX contract included an Intent to Design document, which was the basis for the Commission's input into the design of its facility. This Intent to Design reduces the need for change orders during design and construction of the project.

Proposed Vermont Corridor Development Plan

The distinguishing feature of the proposed Vermont Corridor Development Plan from the Commission's headquarters development is County ownership of the parcels to be developed and the applicability of laws relating to the use and development of County property. Integration of the Alhambra Model into the proposed Vermont Corridor Development Plan would require leasing the County-owned parcel(s) to a development team comprised of a qualified non-profit organization, developer, financial institution, architect, and building contractor.

The parcels to be leased would include the current sites of the administrative headquarters for the following departments: DMH, DPR, and DCSS. The proposed development plan, which would undergo environmental review under the CEQA prior to recommendation to the Board, entails the following proposed activities:

- relocation of the DPR and DCSS headquarters to an offsite location;
- construction of a new building to house the DMH HQ on available land at 510, 526 and 532 South Vermont (Development Site 1), which is immediately adjacent to and north of the current headquarters building; and
- private development of the vacated parcels which will be vacated upon completion of the new building, including 550 S. Vermont and 3175 West 6th Street at the corner of Vermont Avenue and 6th Street (Development Site 2), and DPR HQ at 433 South Vermont (Development Site 3).

Construction of a proposed new HQ building for DMH at 510, 526 and 532 South Vermont Avenue would be accomplished through a GMAX contract similar to the Alhambra Model, as the first phase of construction (Phase I) under a proposed agreement with the non-profit development team. Due to the site being County-owned, the GMAX contract amount may not cover costs related to unforeseen site conditions.

Development of the vacated parcels (Development Sites 2 and 3) would be pursued as a second

construction phase under the agreement with the selected proposer (Phase II). The RFP will request development proposals for the three Development Sites that meet the goal of alleviating blight, meet statutory joint use requirements, and provide best and highest use for the County. In addition, for Development Site 3, the RFP will request a development alternative for senior housing and a community center. Phase II development would be subject to the County's approval and would not proceed until proposed Phase I construction has been completed. If the proposed Phase II construction does not commence within five years after Phase I completion, the development rights to the vacated parcels would revert to the County.

Site Investigation

Upon the Board's authorization, the Commission, with the assistance of Department of Public Works (Public Works), will conduct the above-mentioned site investigation study to assess and quantify potential hazards, site conditions, jurisdictional requirements, and land encumbrances. There are known parameters affecting the proposed Vermont Corridor Development Plan site such as the existence of the Metro rail tunnel under Vermont Avenue next to the proposed site and the City of Los Angeles' designation of a methane hazard zone. There are also other potential issues that need to be confirmed and quantified to determine how these would affect the design and construction of the DMH HQ building such as characteristics of the existing soil and groundwater, the existence of hazardous materials, the location and configuration of existing buildings and utilities, any land title and right of way issues, as well as possible requirements that would be imposed on the projects by various jurisdictional agencies. These investigations will both help to mitigate risks, and confirm the adequacy of the preliminary budget and schedule. The results of the initial site investigation work will be included in the RFP and are intended to reduce the possibility and impact of unforeseen issues.

Proposed Agreement Structure

The proposed agreement with the selected proposer would be structured pursuant to Government Code Section 25549.1 et seq. (Joint Occupancy). Under this statute, the Board may enter into a lease or other agreement with any private person, firm, or corporation any real property which belongs to the County, if the agreement requires the private party to construct on the County-owned property, or provide for construction thereon, of a building or buildings, for the joint use of the County and the private party during the term of the lease or agreement. As is the case with any development of County-property, Government Code Section 25549.1 et seq requires the development team to comply with all applicable laws.

The term of any agreement made pursuant to Government Code 25549.1 et seq. may not exceed 66 years. The site occupied by DMH upon completion of the Phase I improvements would be leased back to the County over a term matching that of the underlying bonds. Upon the final maturity of the underlying bonds, the agreement would terminate and title to the new HQ building shall vest in the County. The privately developed parcels shall continue to be subject to the lease or agreement for the remaining term.

Proposed Financing Structure

We contemplate a long-term bond financing to fund project construction, with the bonds repaid following occupancy of the new DMH building over a thirty-year term. The RFP will be developed to preserve the County's option of issuing the project bonds itself or to use other financing options. The CEO, in consultation with the Treasurer and Tax Collector, will make recommendations on the financing method in the future.

Development Timetable

A preliminary timeframe for submittal and evaluation of the RFP, the site investigation study, development of the Environmental Impact Report (EIR), and preparation of the required development documents is provided below:

- February to April 2015: Conduct site investigation
- February 2015: Commence CEQA environmental documentation
- February to May 2015: RFP Preparation
- May 2015: Request Board approval to Advertise RFP
- August 2015: Proposal submission
- August 2015 to October 2015: Evaluation of submitted proposals completed
- October 2015: Return to Board for approval to enter into exclusive negotiations with the Developer
- October 2015 to January 2016: Cost and fee negotiations
- February 2016: CEO will return to the Board to recommend a contract award with the selected proposer
- February 2016: Final CEQA environmental documentation submitted to the Board of Supervisors for consideration (concurrently with proposed contract award)

The CEO will report, via memorandum, to the Board on the results and/or findings of each of these activities as the milestones are reached.

Space Requirement Evaluation

In an effort to evaluate space needs to accommodate the potential vacation of various departments along the Vermont Corridor, the CEO requested staffing and space request information from DMH, DPR, and DCSS. Each department compiled this information into a County Space Request Evaluation (SRE) form, which was subsequently provided to the CEO for review. A description of the requisite space needs is further described below.

Proposed New DMH HQ Space Requirements

The CEO reviewed the staffing and space request information provided by the DMH for the replacement DMH HQ. Based upon County space standards, it is estimated that the proposed building would require approximately 400,000 square feet to accommodate 2,022 total budgeted positions, of which 1,685 positions are currently filled. The 2,022 total budgeted positions include 1,982 positions currently budgeted and 40 positions to allow for growth. DMH anticipates consolidating the core administrative functions in the proposed building, including 1,094 budgeted positions from their existing headquarters at 550 South Vermont; 445 budgeted positions from their leased space at 695 South Vermont; 217 budgeted positions from their leased space at 600 South Commonwealth; 57 budgeted positions from their Community Resource Management (CRM) Unit at

1925 Daly Street; 169 budgeted positions from the Department of Public Guardian (PG) located in the Hall of Records at 320 West Temple Street; and 40 positions to allow for growth.

The CRM unit is currently housed at Daly Street and is primarily an administrative unit that manages contracts for urgent care centers, the Assembly Bill (AB) 109 population, and mental health State hospital beds. DMH has been working for approximately 18 months to relocate the CRM unit from Daly Street due to safety issues. Although repairs have been done to the facility, it has not been able to pass the Fire Marshall clearance for Medi-Cal certification. In the interim, CRM will be relocating into 550 South Vermont and DMH Human Resources will be relocating from 550 South Vermont to the Little Tokyo Lofts. DMH's intent is to leave the Little Tokyo Lofts when its current lease expires, or the proposed new DMH HQ is completed, whichever occurs first. Thus, space is included in the proposed new building for DMH Human Resources. As DMH has begun programming CRM into 550 South Vermont, DMH has realized that its work requires significant interaction with the other administrative units assigned to DMH HQ. Accordingly, DMH has determined that it makes operational sense to continue to house CRM in DMH administrative headquarters. If the CRM is not included in the DMH HQ, space elsewhere would need to be identified.

PG occupies space at the Hall of Records (HOR) that is not adequate for the program requirements. The staff is split between two floors, sharing space with the Treasurer and Tax Collector staff on one floor and occupying "stack" space that was designed with lower ceilings to provide for file storage. This is creating a morale issue, especially for those staff assigned to the stack space. Because the Probate portion of PG is funded with Net County Cost, and revenue opportunities for the Lanterman Petris Short (LPS) side are limited, DMH is unable to fund lease space to meet the operational requirements of the PG program. Additionally, the Mental Health Court will be relocating to the Hollywood Courthouse, thus including the PG staff in the administrative headquarters will place them in better proximity to the court.

Space Vacation Requirements to Accommodate the Proposed New DMH HQ and Development of the Remaining Parcels

In order to accommodate the construction of a proposed new DMH HQ and development of the surrounding Vermont Corridor site, the space requirements of DPR and DCSS were evaluated. It was determined that DPR would require approximately 62,000 square feet to vacate the properties at 510 South Vermont, and 433 South Vermont and also provide space for the department's contract administration staff and the Sheriff's Parks Bureau staff. The proposed space would accommodate 244 administrative staff.

Finally, DCSS would require approximately 68,000 square feet to accommodate 301 staff and to vacate County-owned space at 510 South Vermont and 3175 West 6th Street and leased space at 3333 Wilshire Boulevard.

As part of the consolidation efforts, leased space can be terminated which may result in annual rent savings used to offset debt service payments, if applicable.

The CEO is currently conducting a new property search for properties available for lease or purchase in order to house DPR and DCSS upon vacation of the Vermont Corridor. The search has not been completed; however, once completed, the list of properties would have to be evaluated by CEO and the Board offices to determine the best course of action.

Implementation of Strategic Plan Goals

The Countywide Strategic Plan Goal of Operational Effectiveness/Fiscal Sustainability (Goal 1), directs that we maximize the effectiveness of processes, structure, operations, and strong fiscal management to support timely delivery of customer-oriented and efficient public services. This includes strengthening the County's capacity to sustain essential services through proactive and prudent fiscal policies and stewardship while investing in the future by studying, prioritizing, and pursuing the highest-need capital projects. In this case, the County is supporting this goal by planning to replace a County facility that has exceeded its useful life and can no longer be supported or maintained. The proposed new replacement facility will enhance operational efficiency in or near the community it services.

FISCAL IMPACT/FINANCING

The total estimated budget for the pre-design site investigation and other activities is \$1,905,000. This includes site investigation in the amount of \$500,000 and preparation of an EIR in the amount of \$1,000,000, both of which will be performed using Board-approved as-needed consultants and funded through the Project and Facilities Development (PFD) budget. Additionally, project feasibility management services in the amount of \$405,000 will be performed by the Commission. The cost for these studies and management services will be paid through the PFD budget. There are sufficient funds within PFD to cover these anticipated expenditures. The CEO will complete a funding agreement to transfer the \$405,000 to the Commission upon approval by the Board. The necessary appropriation adjustment to transfer the funding will be included in the upcoming mid-year appropriation adjustment. The CEO will work with the Commission to refine these cost estimates, and will report back to the Board should the final costs exceed the aforementioned estimates. Existing Board approved as-needed contracts will be used to perform the site investigation activities and environmental study.

In the event the proposed new Vermont Corridor Development Plan is not approved by the Board in a future Board action, County will still be responsible to pay for the completed portions of the site investigation and environmental study as well as any pre-development management services provided by Commission.

The DMH HQ building has a conceptual cost estimate of \$250 million. This cost estimate could change substantially following completion of site investigation. Annual debt service for the building financing is estimated at approximately \$18 million, plus insurance costs to provide coverage of the building required by the financing.

The net cost impact would be determined by factors including, but not limited to:

- the debt service and insurance requirement for the building financing;
- the subvention received by DMH for its debt service payments, which is currently 15 percent for administrative costs;
- bond rates at the time of the financing; and
- revenues generated from the privately developed sites.

If approved by the Board, the Project would likely result in a net increase in costs in order to fund the anticipated debt service on the DMH HQ building. The CEO will provide estimated cost impacts and funding recommendations when we return to the Board following completion of the RFP.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Projects administered by the Commission are not subject to Civic Art allocation requirements per the Board's Civic Art Policy adopted on December 7, 2004, and revised on December 15, 2009.

ENVIRONMENTAL DOCUMENTATION

The recommended actions are exempt pursuant to Section 15262 of the CEQA Guidelines because they involve activities that constitute feasibility or planning studies for possible future actions that are not approved or adopted by the Board, and do not involve approval of a plan legally binding on future activities. In addition, or in the alternative, these recommended actions are excluded from the definition of a project by Section 15378(b) of the CEQA Guidelines.

The proposed actions would authorize a government funding mechanism that does not involve the commitment to a specific project which may result in a potentially significant physical impact on the environment. No activity which would constitute a project under CEQA would be commenced unless the Board takes prior further action to consider and act upon the appropriate environmental review pursuant to CEQA and approve a project.

The appropriate environmental documentation will be provided for the Board's consideration in the event that we return to the Board to request approval of a binding commitment to the proposed Vermont Corridor Development Plan or of any other action that would constitute a project for purposes of CEQA.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There will be no impact on current County services or projects during the performance of the recommended actions.

CONCLUSION

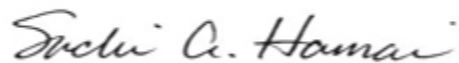
Please return one adopted copy of this Board letter to the Chief Executive Office, Facilities and Asset Management Division and Chief Executive Office, Real Estate Division.

The Honorable Board of Supervisors

2/10/2015

Page 10

Respectfully submitted,

A handwritten signature in cursive script that reads "Sachi A. Hamai".

SACHI A. HAMAI

Interim Chief Executive Officer

SAH:JJ:BMB

FC:PB:rp

c: Executive Office, Board of Supervisors
County Counsel
Arts Commission
Auditor-Controller
Community Development Commission
Public Works
Treasurer and Tax Collector